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WEITERE INFORMATIONEN OK

An unending variety of topics

Friday, March 03, 2006

Why are wages flat and inequality growing?

Paul Krugman (via Brad Delong) bemoans the corruption that has become commonplace here in D.C. and sees it as an effect of growing income inequality:

> Both history and modern experience tell us that highly unequal societies also tend to be highly corrupt. There's an arrow of causation that runs from diverging income trends to Jack Abramoff and the K Street project.

George Reisman (via Chris Engelsma) has explanation for the flat wages:

> The last forty years or so have seen the imposition of environmental legislation and consumer product safety legislation, and numerous other government programs that serve to increase the costs of production. The great majority of people assume that the higher costs simply come out of profits and need not concern them. But the fact is that the general rate of profit in the economic system remains more or less the same, with the result that increases in costs show up as increases in prices, or as decreases in other costs, notably, wages. The real wages of the average American are stagnating in large part because the higher real wages he could have had...have instead been used to pay for the cost of environmental and safety regulations.

Krugman is definitely on to something, but he's got the causation backwards. Public choice theory predicts that the rich have disproportionate lobbying clout because they have more concentrated interests. If there is a big motivation for lobbying -- namely the growing impact of federal taxes and regulations and income redistribution on all of us over the decades within which inequality has climbed -- the rich will do a disproportionate amount of that lobbying and will get an even more disproportionate benefit from it.

The result is today's K Street. The generic semi-skyscrapers of K Street -- all required by law to be shorter than the Washington Monument -- are the true capital buildings of the United States, the capitals of corruption, just a few blocks away from where I'm typing this. It's the street under which I catch the subway home. It is in those stunted skyscrapers, rather than in the symbolic domed capital you see on TV, that most of our country's laws and regulations are in fact drafted. The wealthy -- not to be confused, as Krugman does, with those who happen to have a high income in a particular year -- have a disproportionate clout on K Street. As a

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Nick Szabo

"A premier thinker about history, law and economics, and the lessons they have for security." -- Adam Shostack, Emergent Chaos

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"Like most blogs worth my attention, this blog is updated only infrequently. That is because the authors of blogs worth my attention only post when they have something to say that is true, relevant and not already known by their audience. Most of the human race does not have the skill to know when an idea has these three properties. The skill is particularly rare in the fields of politics and economics, which is why this blog is such a rare and valuable thing." -- Richard Hollerith

View my complete profile

result, federal regulation disproportionately impacts the non-wealthy, including those who are not wealthy but are trying to earn enough income to become wealthy.

Reisman correctly explains why real wages aren't rising: productivity is barely keeping up with the unprecedented crush of government regulations and spending over the last several decades. When we add the disproportionate lobbying ability of the rich, who can thereby direct disproportionate costs of taxes and regulations increasingly towards the middle classes and poor, the great rise in government spending and regulation explains both flat wages and growing inequality. To Reisman's observations on business regulations I'd add the similarly strong and obvious but widely ignored connection between anti-growth zoning and rising housing prices. Housing now eats up historically extraordinary fractions of household income, and that is also a result of predatory government regulation. Not coincidentally, anti-growth zoning also benefits wealth (houses already built and owned) at the expense of income (people who have an income but not a house, who can increasingly not afford to buy a house near where the best income jobs are).

Of course, another explanation for the supposed flat wages is that we don't and can't really know whether they have been flat, or rising, or falling: the measurements that go into computing inflation and "real" wages may be quite subjective and inaccurate, for a variety of reasons. But that is a post for another day.

Posted by Nick Szabo at 6:12 PM

9 comments:

booker said...

Nick's theory adds some good insights to the debate, and it fits the current facts pretty well, but it's out of step with previous decades. Most of the regulatory state since the early decades of this century has been the work of Democrats, and they mostly work for interests that are also successful and corrupt lobbyists but are not "the rich."

Some lobbying is successful for reasons of simplicity. Old people don't have to be professional lobbyists to know that Social Security benefits them at the expense of young workers. Some lobbying interests are proportionately more concentrated even though incomes are less. Unionized government employees are the most disgusting example of this. All of this has come with as much corruption as lobbying by corporation and mis-allocation of taxpayer money as lobbying by corporations and the individual rich.

For that matter, it's not clear that welfare where voters "redistribute" (i.e., steal) money from the rich to themselves is any less destructive than "welfare" for the corporations and rich i.e. defense contracts, farm subsidies, et cetera.

Given this kind of looting the rich must lobby in order to protect themselves. Income earners also try to lobby but here you make very good observations that they can't play this game very well. Their interests are not concentrated, their time is devoted to productive work instead of wasteful lobbying, and they don't yet have the wealth to hire lobbyists. Income earners who are not yet wealthy are in other words the ones who lose the stealing-through-lobbying game.

The rich have a right use lobbying to protect themselves from this looting, but the nature of lobbying is such that they don't stop at just protecting themselves. Since lobbying is more easily targeted to offense than to defense we end up with the rich lobbying to loot from others as well. We then get environmental regulation so that the environment suits the tastes of the rich. And the big corporations long ago discovered that over-regulation helps them since they can hire lawyers and other rule-tracking bureaucrats far more easily than small businesses. It follows that even though the big corporations capture the regulatory agencies through lobbying, the result is more not less regulation.

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I agree with you that generally lobbying robs from income earners and gives to the wealthy. But it also gives this loot to other concentrated interests like government employees and contractors and to voters with similar interests in simple looting schemes like Social Security. You are right that the wealthy have the wealth to defend themselves by lobbying, and to go on the offense against others by lobbying, but new income, the people not yet rich but trying to get rich as you say, do not.

But that's not the worst of it. The most destructive part is that lobbying by anybody also robs from those who focus on productive work and gives the results to those who are skilled in unproductive lobbying.

Voting works differently but may not be an better than lobbying: the mass of voters end up taking money from the productive and giving it to themselves and people like themselves. The rich and income earners (if they could) are entitled to use lobbying and to buy politicians in order to protect themselves from these looters. I just wish that's all they could lobby for, but as we've seen in the last decade it doesn't stop there.

3:17 PM

Disinterested Benevolence said...

I think you mean Chris Engelsma

that is if you were quoting me.

6:29 PM

Howie said...

Nick, you can't just assert that increasingly burdensome government regulations are causing wage stagnation, and make a convincing argument. Your case is not bolstered by quoting someone else who also asserts it.

At some point along the line, you have to show it.

5:23 AM

Nick Szabo said...

This comment has been removed by a blog administrator.

8:14 AM

Nick Szabo said...

Howie, you're talking about a blog post, not a research paper. If you don't already know, it's easy to discover that Reisman's premise of rising regulatory costs is quite true. There are plenty of materials on the Internet showing how much regulations costs business and how much this has changed over the last few decades (and thus, via Reisman's straightforward argument, depress wages). See for example this government regulatory cost report.

8:18 AM

Howie said...

Thanks for the link. Do you have something more? Something without the typesetting issue?

It's a common refrain that regulations are crushing the economy, but I've not seen anything the support it. I've never questioned it either, until now.

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I did dig down enough to see that the source study for the web page recognized that accounting in this area is sadly primitive. So it sounds like something that should be investigated, rather than cited as given.

The first question I'd ask is: are the numbers for regulatory compliance (15% of GDP) gross, or net? There would appear to be three things that ought to go into the balance sheet; costs of compliance, baseline costs (that would have been incurred without regulation), and return on mandated costs.

If a regulation mandates that your workforce must wear helmets, the net cost of compliance is not the cost of the helmets. It's the cost of the helmets, less the cost of the helmets that would have been bought anyway - which may equal zero right there - less the savings in workplace accident costs that would occur if inferior quality helmets, or no helmets at all, were used.

Regulation often has another effect on costs. It redistributes them, rather than increases them. That makes it a political issue. But that should be considered separately from the economics of regulatory costs.

7:40 PM

Anonymous said...

This comment has been removed by a blog administrator.

6:38 AM

Anonymous said...

can't take critisism Nick?
Time to quit mate.
(better get the "deleter" outfor this one as well)
Steve

11:55 AM

Nick Szabo said...

I can take all the rational and knowledgeable criticism you can dish. I can, but won't, also take trolling, in this case in the form of gratuitous ad hominem attacks.

3:16 PM

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